



Representative:

The Michigan Insurance Coalition is strongly asking you to consider opposing House Bills 4675 through 4678. We believe these bills to be unnecessary and perilous to the operations of the Michigan Catastrophic Claims Association (MCCA) which is the No-Fault cornerstone providing Michigan insureds the most generous medical and rehabilitative benefits in the United States.

These bills could jeopardize the usefulness of the MCCA in rating agencies' evaluation of the financial condition of Michigan insurers, especially those carrying large amounts of MCCA recoverables on their balance sheets. In the past, leading agencies have expressed concern about government meddling in MCCA operations, and even threatened downgrades in response to some proposals.

Michigan law already ensures more than adequate oversight of the MCCA operations. An independent audit is conducted each year and is submitted to the Commissioner of the Office of Financial and Insurance Services and that same Commissioner sits on the MCCA board as an ex-officio member. At her confirmation hearing, former Commissioner Linda Watters testified that the MCCA is an effectively run organization.

Excerpt from Commissioner Watters' response to written Advice and Consent Questions from the Senate Banking and Financial Institutions Committee.

The Michigan Catastrophic Claims Association (MCCA) is an effectively run organization. A surplus has been used as a credit to the MCCA assessment since 1995. Since 1995, the MCCA has returned \$3 billion in surplus, including a one-time lump sum payment of \$180 to Michigan citizen [sic] for each of their insured vehicles as of March 18, 1998. Although the MCCA fund has experienced cycles of surplus and deficit, historically, it appears that the MCCA board has managed the Association conservatively in an attempt to keep the fund balanced and at a level sufficient to pay claims. Unfortunately, an increase in medical expenses combined with a recent "bear" market has put the association into a deficit situation and the MCCA announced a 2003 assessment of \$100.20 per vehicle. Worth noting, there are funds to pay claims now and into the future since the MCCA assessment is calculated for both current and anticipated medical costs associated with catastrophic auto insurance claims.

There is no reason the Commissioner cannot report on the operations of the MCCA in the same manner as would be done with other insurers or reinsurers. As an ex-officio board member, she has complete access to all of the operational detail affecting the MCCA and is afforded the opportunity to affect, and sometimes approve, decisions made by the MCCA board.

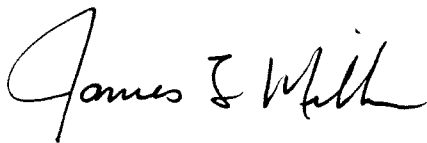
And finally, it is irresponsible to suggest that the MCCA should be treated like a governmental agency – subject to open-meetings requirements, public board members, or audits by the Auditor General. The MCCA is not a state agency and the state does not assume any liability for the costs arising from catastrophic claims – private insurance companies and the MCCA remain responsible.

Here is more information about the MCCA:

- The MCCA is a private non-profit association. It operates as a reinsurer for every insurer providing automobile insurance in Michigan. (A Reinsurer is an insurer's insurer. Insurers regularly transfer part of their claims liabilities to reinsurers as a means of spreading risk and protecting their solvency.)
- The MCCA was authorized under Michigan law because no other reinsurers would provide coverage for the unlimited lifetime medical benefits provided under Michigan's unique, no-fault system.
- The MCCA protects the financial solvency of automobile insurers in the state of Michigan and protects the financial ratings that provide consumers with assurance of each insurer's ability to pay future claims.
- The MCCA does not have direct contact with policyholders – individual insurers adjust and pay all claims and are reimbursed for a portion of certain catastrophic claims through the MCCA. The MCCA charges insurers for the catastrophic reinsurance it provides. The MCCA does not and cannot charge individual policyholders.
- The MCCA assessments to insurers are determined by two independent actuarial firms that assess the number of claims, severity of claims, and the expected costs of providing lifetime unlimited medical benefits to catastrophically injured motorists. Some claims have expected durations of 40-50 years or more.
- During periods of rapidly escalating medical costs, the difficulty of predicting the future MCCA assessments to insurers for such long-term claims is more difficult. These estimates are further complicated by fluctuations in investment returns and number of claims.
- When the MCCA's actuaries calculate the number of claims or the costs associated with them, they report an **estimated** surplus or **estimated** deficit in the MCCA's funding. These estimates are affected by medical cost inflation and investment returns – and they must be projected for the lifetime of every catastrophic claim.

- Estimated surpluses or deficits are generally returned or recouped over time to avoid fluctuations in the MCCA assessments to insurers. In the mid-1990's an estimated surplus was being returned through lower assessments over a period of years when it met with public pressure to return the surplus in one lump sum.
- The MCCA warned that a lump-sum surplus return in 1998 would reduce its ability to avoid the affect of fluctuations in its assessments to insurers. Despite the warnings of the MCCA and the insurance industry, political pressure influenced a \$180.00/car refund.
- Changes in medical cost inflation and investment returns caused the MCCA assessment to insurers to rise following the lump sum refunds. Because of the 1998 surplus reduction, the MCCA no longer had the surplus to offset this increase. This is precisely what the MCCA and the insurance industry warned against.
- Any legislative, political, or regulatory interference with this important reinsurance mechanism threatens the economic viability of Michigan's automobile insurance no-fault system.
- Instead of interfering with the MCCA, legislators should recognize the security it brings to Michigan's automobile no-fault system -- enabling Michigan's citizens to enjoy the most generous medical benefits anywhere in the world.

The members of the Michigan Insurance Coalition again ask you to consider the consequences of these bills and vote not to move these detrimental policies forward. The business of insurance is a serious business providing protection and peace of mind to millions of Michigan residents. The MCCA is an crucial part of the no-fault system and provides for the lifetime medical benefits we have in Michigan. If state government wants to treat the MCCA as a state agency, possibly jeopardizing insurers ratings and ultimately the solvency of the MCCA, then let it put the full faith and credit of the state of Michigan behind the MCCA's promises to reimburse insurers for PIP payments in excess of the retention.



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